Out of the Ashes

British Columbia's Economy in 2004

Todd Hirsch
Chief Economist

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Canada West Foundation

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INTRODUCTION

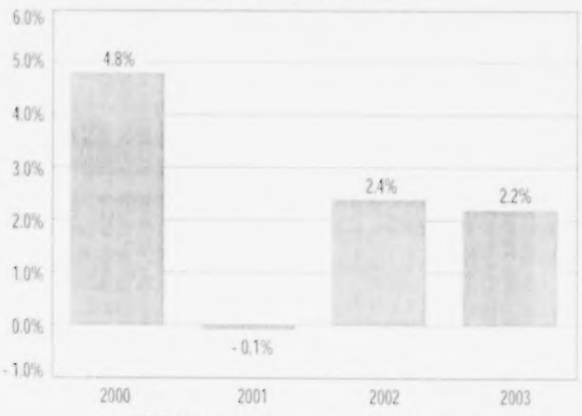
After three full years of lackluster growth, it appears that British Columbia's economy is finally gaining traction in 2004.

Total exports from British Columbia – which by 2003 had fallen 17% from their peak in 2000 – have rebounded somewhat in the first half of 2004 thanks to a strengthening global economy. Employment growth has been solid over the past 12 months due largely to improvements in metal mining, energy, and services. Demand for labour and business confidence are both rising.

Dry conditions may result in more forest fires this year throughout the province, but they are unlikely to be as destructive or disruptive as the fires of 2003 in the Okanagan. Film and TV production – while still relatively small in total value – has been a particular bright spot for British Columbia. Tourism is expected to post modest gains this year.

Economic growth in British Columbia this year and the next should continue to strengthen. Energy prices, while difficult to meaningfully predict, are likely to remain fairly steady. The US economy is showing very encouraging signs of vitality, which should translate into stronger demand for commodities, industrial products, and manufactured goods. Continued low interest rates in Canada throughout the summer and fall should sustain housing starts and consumer demand.

FIGURE 1: Real GDP Growth in British Columbia
(Annual % Change for Years 2000-2003)



SOURCE: Statistics Canada, "Provinces," April 28, 2004. (GDP at market prices)

Economic Bright Spots

- Exports are showing strength on the global recovery and a stabilized Canadian dollar;
- Employment growth continues to outpace Canadian average rates;
- Projects related to the 2010 Olympics and a sustained high level of residential housing will bolster construction activity;
- Natural gas and mining activity will continue to expand given current commodity prices;
- Despite ongoing softwood lumber dispute, BC's lumber mills have rationalized and become much more efficient producers;
- Tourism, film & TV will show modest growth.

Areas of Concern

- Mountain pine beetle infestation and possible forest fire damage this summer could continue to buffet the struggling forestry sector;
- Skills shortages in certain sectors, particularly the trades;
- Unresolved land claims in many parts of the province affecting a wide range of economic activities including mining, energy exploration, and tourism.

Gross Domestic Product at Market Prices
(2003 in Millions of $ Cdn)

British Columbia	$142,418
Alberta	$170,631
Western Provinces	$387,905
Canada	$1,214,601

British Columbia's GDP is 36.7% of Western Canada's GDP and 11.7% of Canada's GDP.

SOURCE: Statistics Canada, Canadian Economic Observer, June 2004

SOLID JOB CREATION

BC enjoyed fairly strong job growth between June 2003 and June 2004. The synchronized global economic growth – as well as a generally business friendly labour market – has prompted BC employers to expand their operations in the province, particularly in the service industries.

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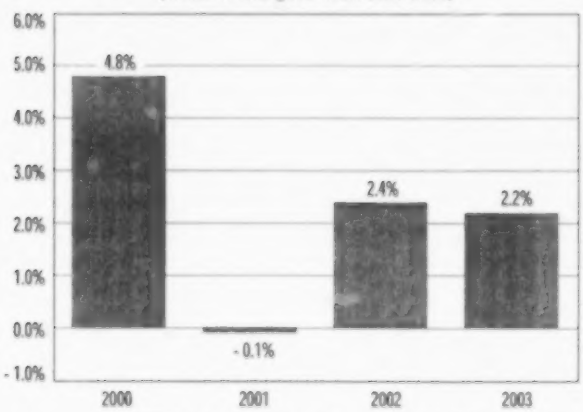

SOURCE: Statistics Canada. *The Daily*, April 28, 2004. (GDP at market prices.)

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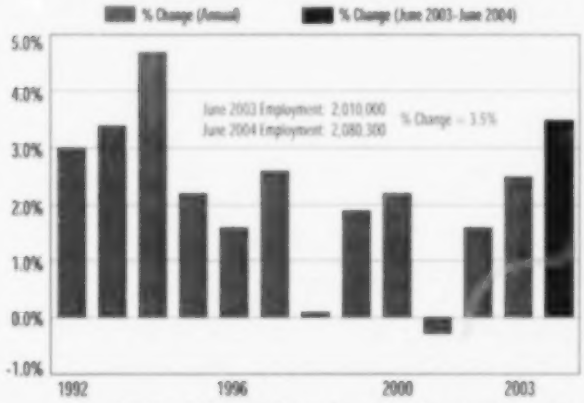
BC enjoyed fairly strong job growth between June 2003 and June 2004. The synchronized global economic growth – as well as a generally business friendly labour market – has prompted BC employers to expand their operations in the province, particularly in the service industries.

FIGURE 2: Employment in BC
(Annual % Change 1992-2003, and % Change June 2003-June 2004)



SOURCE: BC Stats (from Statistics Canada Labour Force Survey) and Statistics Canada, *The Daily*, July 9, 2004.

In June 2004, total employment in the province rose by 3.5% compared to a year earlier. This was a greater percentage increase than the national average (1.9%), and by far the highest provincial increase. Unemployment in the province remains quite high at 7.5% in June (compared to 7.3% nationally and 4.6% in neighboring Alberta). Despite this high rate, one of the most pressing issues affecting the BC labour market is actually the shortage of skilled workers in certain industries. Shortages are particularly acute in the construction trades and health care sectors. Shortages in the former are expected to worsen as major construction projects related to the 2010 Olympics get underway.

A recent Canada West Foundation report highlights the sector-specific labour shortages in the province. Of 22 industry associations surveyed in BC, 13 reported some shortages of skilled labour, and two reported severe shortages (February 2004). When asked about skills shortages in the coming five years, the number of industries expecting shortages jumps to 20 of the 22. Occupations that expect to face severe skills shortages include ambulance paramedics, mechanical and electrical contractors, manufacturers and exporters, and jobs in the apparel industry.

BUSINESS CONFIDENCE IS IMPROVING

A recent survey of small and medium-sized businesses in June 2004 shows that BC's business confidence is rising. The survey – conducted by the Canadian Federation of Independent Business – puts the barometer of business confidence at 118.2 (on an index based on 1988 = 100). This is a record high level of optimism in BC. Moreover, this is the fourth consecutive quarterly increase in confidence for the province. All other provinces except Saskatchewan registered a downturn in business confidence in June.

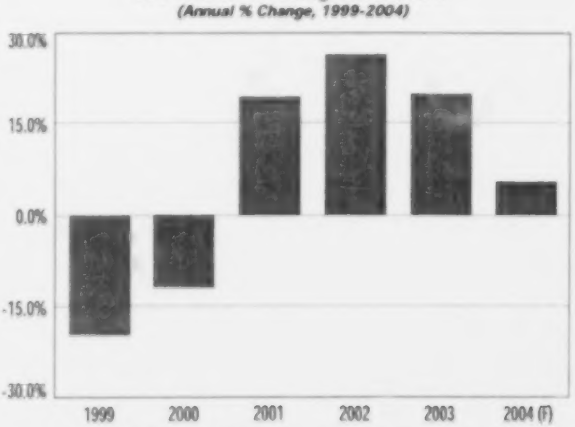
Business confidence and optimism in BC is also reflected in the recent data from Canada West Foundation's *Job Opportunities Index*. This index measures demand for labour in the economy by tallying the number of job postings on *Monster.ca*, a popular web-based career management portal. There were 1,159 BC job postings on the site in June, up nearly 24% from January. Most of the increases were concentrated in finance, professional and administrative, and retail job categories.

CONSTRUCTION ON A ROLL

Construction activity is expected to remain quite robust in BC due to the sustained strength in public and private investment spending. This is partially related to the commencement of several major projects for the 2010 Olympics. According to Statistics Canada data on investment intentions, total construction activity in the province is expected to increase from $16.3 billion in 2003 to $17.1 billion in 2004 – an increase of 5.2%.

A major share of the construction activity is in residential housing, which is expected to increase from $7.8 billion to $8.5 billion (+8.3%). In terms of housing starts, the province has benefited over the past few years from sustained low interest rates. Despite a sagging economy, BC posted impressive gains in housing starts of 20% last year, and nearly 27% in 2002. This year, housing starts are expected to remain quite high but growth will be more subdued in terms of percentage change.

FIGURE 3: Housing Starts in BC
(Annual % Change, 1999-2004)

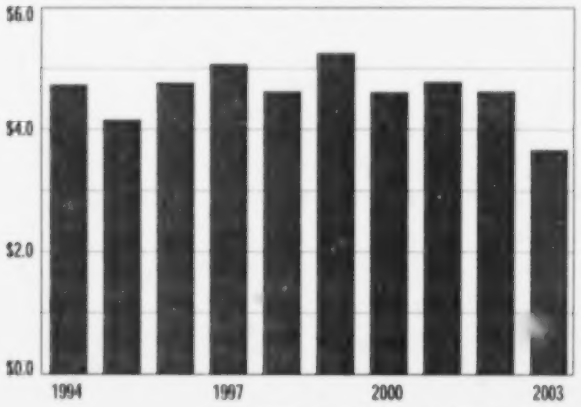


SOURCE: RBC Financial Group (from Statistics Canada). 2004 is RBC forecast.

FORESTRY

Although the softwood lumber dispute with the United States remains unresolved and is not expected to progress in any meaningful way soon, the Canadian forestry sector is prevailing in various rulings by both the NAFTA panel and the US Department of Commerce. BC has been the province hardest hit by the ongoing dispute because of its particular reliance on softwood lumber products. As seen in *Figure 4*, lumber exports from BC to the US are down considerably since their late 1990s levels. This has been a major financial setback to BC's forestry and sawmill industry.

FIGURE 4: Value of BC Lumber Exports to the U.S.
(1994-2003 in Billions of $ Cdn)



SOURCE: Industry Canada Trade Data On-Line, Statistics Canada.

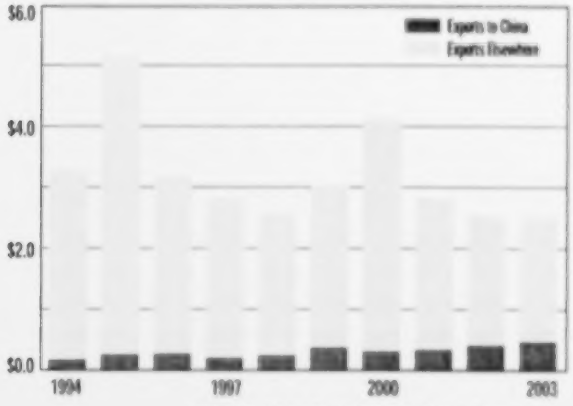
Another potentially serious setback to BC's forestry sector is the infestation of the mountain pine beetle. While epidemics of these beetles – which feed on bark and destroy standing pines – are natural events in the province, the recent outbreak is unprecedented in recorded history. To combat the potential level of destruction and loss of timber, the province's chief forester will determine this summer whether an increase in timber harvest levels is necessary in the central BC timber supply areas that have been hardest hit by the mountain pine beetle epidemic.

There have been some silver linings in the forestry sector, however. Because of lost sales to the US, the province's lumber producers have been forced to rationalize many of their operations, closing the least efficient sawmills throughout the province. While this has been a very painful experience for those towns dependent on some of these older, marginal mills, the overall sawmill sector in the province is now much more efficient. This will place the sector in a very good competitive – and even profitable – position despite the ongoing trade dispute.

Lower volume supply to the US and strong housing activity have also driven up prices. If lumber prices are sustained, exporters will stand to gain in terms of higher value, rather than volume, of lumber exports.

As well, things are improving for the pulp and paper sector. Producers suffered from global oversupply and low prices during the early 2000s, but an improved outlook for demand internationally has recently sparked an increase in exports in 2004. Pulp sales to China have been especially encouraging with the total value of exports to that country up 175% over the past decade. Given China's growing importance as an importer of industrial goods, this expanding market bodes well for BC's pulp producers.

FIGURE 5: Value of BC Pulp and Paper Exports
(1994-2003 in Billions of $ Cdn)

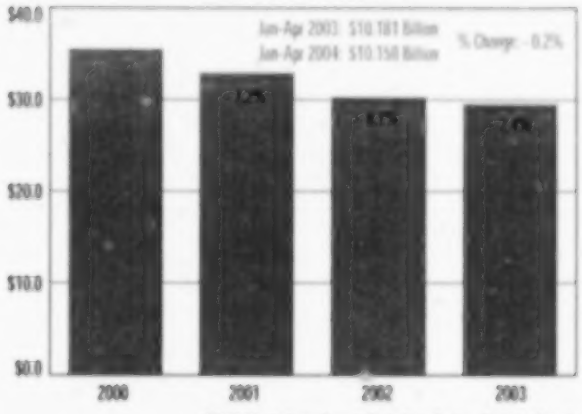


SOURCE: Industry Canada Trade Data On-Line, Statistics Canada.

EXPORTS AND IMPORTS

Last year, total exports were approximately $29.5 billion – down nearly 17% from their peak in 2000. A rising Canadian dollar, weak international economic growth, and the lumber trade disputes were largely responsible. In 2004, there is light at the end of the tunnel. While total exports between January and April of this year are still slightly lower than exports during the same four months last year, it appears that the worst is behind provincial exporters. A stabilized Canadian dollar and a much-improved global economic picture should lead to a resurgence of export growth this year and next.

FIGURE 6: Total Exports From British Columbia
(In Billions of $ Can, 2000-2003)



SOURCE: Industry Canada Trade Data On-Line, Statistics Canada

ENERGY AND MINING

BC is the second largest producer of natural gas in Canada after Alberta. Gas from the province's northeastern corner has been a driving force in the BC economy over the past few years, and there are strong indications that it will continue to spur overall provincial exports and GDP growth. As well, BC's vast reserves of offshore oil and natural gas – which are so far undeveloped and under exploration bans – could eventually vault the province into a major energy producer on the continent.

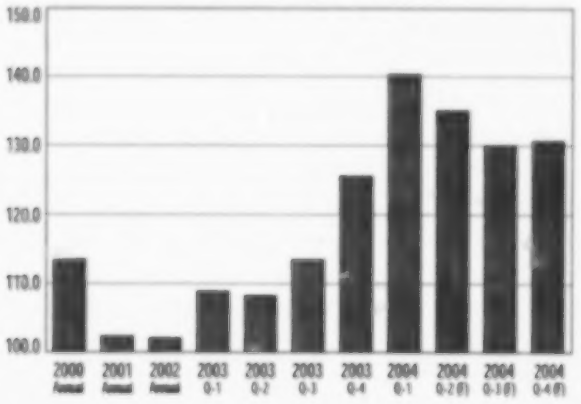
High commodity prices and changes to provincial regulations helped raise the value of investment in natural gas extraction by 31% in 2003 to $2.7 billion. This is double the level of five years ago. According to investment intentions for 2004, this level of investment will be essentially matched in 2004, dipping only slightly to $2.6 billion.

For decades, metal mining of gold, copper, lead, silver, zinc and molybdenum was a mainstay of the province's natural resource economy. During the 1990s, the sector was hit hard with both low commodity prices and a series of legislations under previous provincial governments that were perceived to be negative for the mining sector.

Now, however, these factors have reversed and the sector is looking to be in better shape than it has for years. Commodity prices in US dollar terms have risen sharply over last year and into 2004, and despite the higher value of the Canadian dollar, producers are finally enjoying some stronger revenues for their commodity sales.

Metal prices in the coming months of 2004 and into next year will depend largely on the continued economic expansions in the world's two largest markets for industrial metals: China and the United States.

FIGURE 7: Metal and Mineral Commodity Price Index
(2000-2004, 1993 = 100.0)



SOURCE: BMO Financial Group Economics

The province's Liberal government has introduced several measures that have been credited with helping the beleaguered mining sector find its feet. Aside from eliminating the amount of red tape in applying for the rights to build or expand a mine, the government has divided the province into two zones – one that allows for mining development and one that does not. This has reduced investor uncertainty. Also, there have been increased tax breaks for individual investors in the mining sector.

FILM AND TV

British Columbia is the third-largest film and TV production centre in North America after New York and Los Angeles. In 2003, the total value of spending on television and film production in BC was over $1.4 billion dollars, making it a significant contributor to the overall provincial economy. This is up over 300% from 1995 when total spending was only $432 million.

Most of the spending on film and TV productions in BC is foreign spending, particularly from large US movie and television studios. Last year was marked with extremely high spending at over $1.2 billion.

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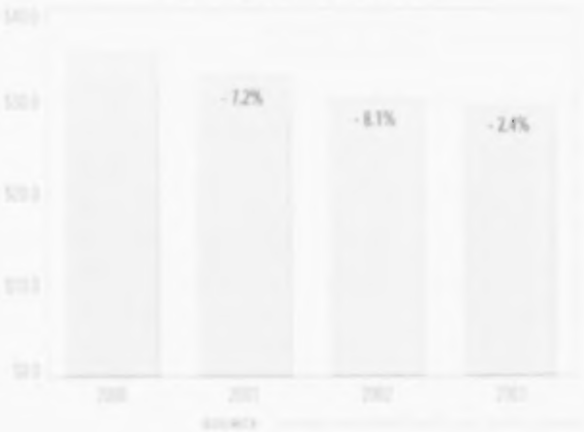
(In Billions of $ Can. 2000-2003)



SOURCE:

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High commodity prices and changes to provincial legislation helped raise the value of investment in natural gas and crude oil by $1.0 in 2003 to $2.1 billion. This is double the level of five years ago. According to industry estimates, by 2010, one-third of investment will be exploratory drilling in 2004, totaling only slightly to $1.5 billion.

For decades, BC's mining of gold, copper, lead, zinc and coal complemented and supported the province's forestry industry. During the 1990s, the sector was hit hard with many mine closures in the province's interior. Recently, however, provincial governments that were reluctant to be supportive for the mining sector.

New Mexico's New Mexico's new mineral and fuel sector is looking to be a better year than it was for years. Commodity prices, in fact, have been high for many years and this year was the first year in which the Canadian large producers were finally enjoying some stronger revenues for their commodity sales.

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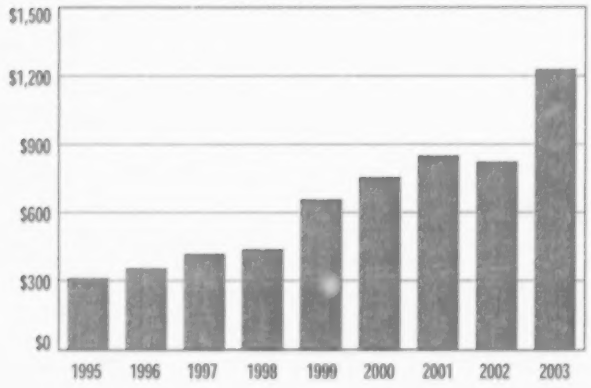
Most of the operating film and TV productions in BC are foreign, spending particularly from large US movie and television studios. Last year was marked with extremely high spending of over $1.2 billion.

Film and TV production spending encompasses a wide variety of goods and services (catering services, acting agencies, equipment rentals, sound and video technicians, office and real estate leasing, etc.) and therefore cannot be compared directly with the traditional sectors making up the provincial gross domestic product. But to place it in context, the value of film and TV production in BC is greater than the GDP of BC's agriculture ($1.1 billion), and nearly as large as the GDP of paper manufacturing ($1.7 billion), and arts, entertainment and recreation ($1.4 billion).

FIGURE 8: Spending on TV and Film Productions in BC
(1995-2003 in Millions of $ Cdn)



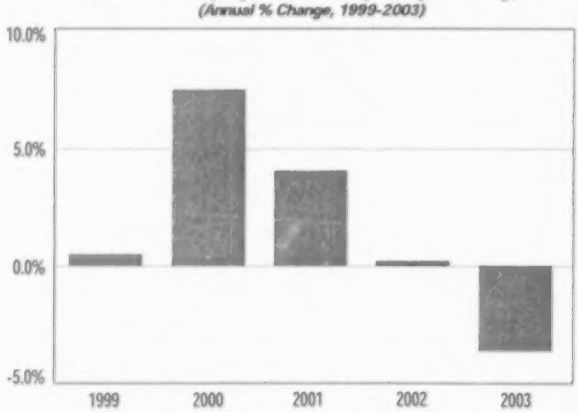
SOURCE: BC Film Commission.

TOURISM

The summer of 2003 was very weak for BC's $9 billion tourism sector. The outbreak of SARS resulted in international travel advisories against visits to Canada; this seriously eroded BC's very important Asian tourism market. Other factors such as the forest fires, geo-political tensions throughout much of the year, and BSE (mad cow) contributed to a generally poor year for international tourism. On top of it all, the ascension of the Canadian dollar in 2002 and 2003 translated into somewhat lower tourism from the US.

There is hope that 2004 and 2005 will see modest improvements in tourism levels. While threats of international terrorism have by no means faded, geo-political tensions have calmed somewhat. There is no expected return of SARS this year, although forest fires and the West Nile virus pose possible downside risks. The Canadian dollar has stabilized and even weakened somewhat since last summer, which should help to encourage more American visitors. Economies in Asia and the US are also improving, which could boost international visitors. But on the other hand, high gasoline prices this summer may discourage much road traffic from the US.

FIGURE 9: Employment in Hospitality Industry, BC
(Annual % Change, 1999-2003)



SOURCE: Statistics Canada, Labour Force Survey, and BC Stats. Hospitality refers to employment in accommodations and food services industries.

SUMMARY

Over the past few years, British Columbia's economy has suffered slow or negative growth. Falling export values were brought on by ongoing softwood lumber disputes, a soaring Canadian dollar, and a stagnating US economy. Forest fires and SARS added to the economic malaise last summer.

Now, however, there is much greater optimism surrounding the prospects for a resumption of growth in the province. Business confidence is up and employers are hiring.

The 2010 Olympics have certainly contributed to the rosier outlook, but the recovery is not restricted to construction activity. There appears to be a more synchronized expansion taking place among all of the major industries: forestry, energy, mining, tourism and services. While other downside risks still pose threats to the recovery – such as pine beetle infestations, more forest fires, and unresolved land claim disputes – the provincial economy is likely to rise out of the ashes in 2004 and 2005 with growth rates above that of the Canadian average. ■

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IDEAS CHANGE THE WORLD

2004 has the potential to be a year of great change in Canada: there will be a federal election, the future of our cities is a hot topic, Canada-US relations are evolving, and the nature of our democracy is being debated.

As Canadians talk about these issues, it is critical that the aspirations, perspectives, and ideas of western Canadians are heard.

Through its Western Cities, Building the New West and West in Canada Projects, the **CANADA WEST FOUNDATION** is actively working to generate ideas for positive change and to make sure that the views of western Canadians are an integral part of the national debates during this time of change.

HOW CAN YOU HELP?

Without ideas – and an organized effort to get them heard – change will not happen. This is what the Canada West Foundation does. But, we can't do it without your support. If you want to help ensure that western Canadian ideas are front and centre on the national stage, we invite you to become a FRIEND of the Canada West Foundation by making a donation. Please contact our Director of Finance and Administration Lori Zaremba (403.264.9535 ext. 347 or toll free 1.888.825.5293 or zaremba@cwf.ca) for more information.

Canada West Foundation

900, 1202 Centre Street South
Calgary, Alberta, CANADA • T2G 5A5
Ph: 403.264.9535 • Toll Free: 1.888.825.5293
Fax: 403.269.4776 • Email: cwf@cwf.ca